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A POLITICAL ECONOMY ANALYSIS OF
ALBERTA'S ECONOMIC PROSPECTS (1985-1990)

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INTRODUCTION

This paper deals with a question of vital importance to Albertans; what are Alberta's economic prospects in the short to medium term? To answer this question, I have chosen to take a political economy approach. The first section of the paper encompasses a broad overview of the Alberta economy, and the national and international factors which will either promote or inhibit future economic growth in the province. The second section involves a detailed sectoral analysis of the Alberta economy. The third section examines the employment prospects in the Alberta economy in the short to medium term. The paper concludes with an analysis of Alberta's future economic prospects, given the conditions which now exist in the provincial economy. It is hoped that this paper will shed some light on the strengths and weaknesses of the Alberta economy, and hopefully it will stimulate some debate on what should be done to improve Alberta's future economic prospects.

1) ECONOMIC OVERVIEW The Alberta Economy

When the final statistics are in, we are unlikely to have seen any significant growth in the Alberta economy in 1984/85. Alberta has continued to trail the national economy in recovering from the recession. Alberta was affected not only by the cyclical downturn in the national economy, but also by structural change (ie., the transition from a world of energy shortages and steadily rising energy prices to one with an oil surplus and stagnant or declining prices).

The provincial economy should begin to show some growth again in 1985/86. The Conference Board of Canada, in its quarterly provincial forecast (released on February 21, 1985) indicated that Alberta's economy will grow by 2.1% this year.¹ The Board also predicts that the Canadian economy will grow as a whole by 2.4% in 1985.² Statistics Canada reported in February that the Canadian Gross National Product (GNP) grew by 4.7% in 1984.³ The Conference Board also forecasted that the Alberta economy should return to stable growth by 1987, at rates approximating the national average, but well below those of the boom years.⁴

The National and International Economic Environment: Factors Which Influence the Performance of the Alberta Economy

The Canadian Economy

The most recent available data suggests that the speed of the Canadian economy's recovery from the recession has continued to slow gradually. Although the Canadian recovery has been quite strong by OECD standards, it has lagged that of the United States.⁵

Exports and consumer spending on durable goods -- particularly automobiles -- have been strong points in the Canadian recovery. Weakness in investment spending -- restrained by high real interest rates, low capacity utilization rates in manufacturing, and a general weakness in the primary sector (ie., the extraction and production of raw natural resources) -- and continuing high levels of unemployment have been disappointments.

Forecasters generally expect that the Canadian economy will see slower growth in 1985 and 1986, with the unemployment rate remaining at the 10-11% level.⁶ This will result from expected slower growth in the U.S. economy (affecting demand for Canadian exports), and the concern that Canadian interest rates may continue their upward trend to counteract the strength of the \$U.S. As well, the U.S. interest rate situation will be a key variable in Canada's medium-term economic prospects.

The Economies of the U.S. and the Other Western Industrialized Countries

The rapid growth which has characterized the American economy's recovery from the recession has slowed considerably in recent months. This slowing has been accompanied by a substantial decline in U.S. interest rates. Slower but still steady growth is expected to characterize the U.S. economy through 1985 and 1986.⁷

Problems associated with the growing U.S. federal deficit are expected to place gradual upward pressure on interest rates through 1985 and 1986, but not to the degree of causing an actual recession. Wider

fluctuations in U.S. interest rates could substantially affect the performance of the U.S. economy. The American government's success in controlling its deficit will be a key determinant of interest rate trends.

The American economy is also being adversely affected by the strength of its currency in international money markets. The strong \$U.S. has led to a drop in U.S. exports and to a widening of its trade deficit with the Western industrialized countries (particularly Japan).

The rate of Japanese output growth is expected to decline in 1985, but at the same time it will remain at a high level relative to most Western economies.⁸ Western Europe will see only modest economic growth. According to the most recent OECD report, West Germany's economic prospects are seen as being considerably better than those of France and Great Britain.⁹

Federal Government Policy

The Foreign Investment Review Agency (FIRA) is now called Investment Canada, and apart from the name change, a number of amendments to the regulatory process involved in screening foreign investment have been made. The changes were made in order to foster greater foreign investor confidence. The changes are largely an attempt to streamline the decision to either allow or reject foreign investment. Also, some restrictions on foreign investment have been eased.

Alberta may benefit from such changes in the short to medium term, although the positive effects will lag behind the new legislation. Also, with the depressed state of some of the resource markets such as petrochemicals, natural gas, coal and forestry products; initial investment may be slack until these markets show signs of improving.

Interest Rates

The level and the expected trend of interest rates has important effects on business attitudes and investment as well as consumer spending.

Of particular importance to Canada is the spread between U.S. and Canadian interest rates. This spread results, to a large degree, from pressures (upward or downward) on the Canadian dollar. Recently the interest rate spread between U.S. and Canadian rates was considerable, a result of attempts by the Bank of Canada to relieve the downward pressure on the Canadian dollar. As the Canadian dollar strengthened, the U.S./Canadian interest rate spread declined because the Bank of Canada took a less restrictive stance. Since mid-1984, U.S. interest rates have fallen due to a slowdown in the U.S. economy. The fall in U.S. interest rates has had a similar but somewhat lesser effect on Canadian interest rates.

It is anticipated that interest rates in Canada may register small additional declines through 1985, a result of the economic slowdown in the U.S. which will continue to ease U.S. rates through a less restrictive policy by the Federal Reserve Board. However in 1986, we will once again see U.S. rates begin to rise slowly as the competition for funds increases from both public and private borrowers. The Wharton forecast anticipates that the clash for funds between private borrowers and the U.S. government will result in higher rates than those at present.¹⁰ As a result, the current trend of slow economic growth in the U.S. will be halted in mid-1986.

Given the course that interest rates have taken over the past three to four years, it is definitely foolhardy to comment on anticipated movements of interest rates beyond 1985/86. It is possible, however, to mention a number of factors which will influence their direction. The U.S. deficit will not disappear in the space of a year and a half. The financing of this deficit will continue to exert upward pressure on interest rates. This fact, combined with a modest recovery in the U.S. after 1986, an accelerating Canadian economic recovery and improved economic conditions in Europe, will also place upward pressure on interest rates. The general outlook for interest rates, therefore, is a slight decline in 1985 with a slow but upward trend starting in 1986.

World Oil Prices

Also of great importance to Alberta is the level of world oil prices. The Organization of Petroleum Exporting Countries (OPEC) is currently attempting to maintain the \$29.00/bbl(U.S.) price for marker crude oil through reduced production quotas. It has, however, become increasingly difficult for them to do so (spot market prices for light crude oil are about \$1.50 - \$2.50 (U.S.) below the benchmark price) given that some countries which are not aligned with OPEC are quite willing to sell below the \$29.00 (U.S.) price, and are also able to make up any production cutbacks by OPEC members (eg., Norway and Great Britain). As well, most of OPEC's 13 members are offering some oil at a discount.

The world oil price is important to Alberta because the Enhanced Oil Recovery (EOR) projects and the heavy oil sand projects require higher prices -- than oil from conventional sources -- to remain viable. There exist extensive plans for current and future EOR and oil sands development in Alberta. Any anticipation of lower world oil prices would reduce the likelihood of these projects going ahead.

It is anticipated that the benchmark price of \$29.00 (U.S.) will be maintained through 1985. However, the volatility of the world oil market, will keep spot market prices below this benchmark price. There remains the possibility that world oil prices could drop suddenly to about \$20.00 (U.S.) if Saudi Arabia raises oil output to counteract the overproduction and discounting being practiced by some members of OPEC. However, this scenario does not seem likely at this time since that would effectively destroy the OPEC cartel, and that would not be in Saudi Arabia's long term interest.

Beyond 1985/86 expectations are for oil prices to increase in nominal terms. It is anticipated that the longer term will see the real price of oil increase. In its most recent forecast, the National Energy Board argues that OPEC's contribution to the world oil trade is expected to increase as non-OPEC additions to global supplies will be modest.¹¹ Therefore, in the long run OPEC will once again be able to more readily

influence world oil prices, which will result in oil prices that rise faster than inflation.

II) A SECTORAL ANALYSIS OF THE ALBERTA ECONOMY

A) Primary Sectors - (Natural Resources)

1) The Oil and Gas Industry

Gradual improvement is underway and is expected to continue in the oil and gas industry. Alternatives to tax and royalty regimes, pricing and policy changes (eg., the Western Accord), and improving markets have increased production and exploration activity for both conventional and heavy oil. Natural gas export markets, however, remain very weak. Given the resolution of pricing issues, gas exports to the U.S. should pick up in 1986.

Oil production in Alberta increased in 1983 and 1984, and is expected to make further gains in 1985.¹² Oil sales have been stimulated by the National Energy Board's approval of expanded crude oil exports to the U.S., increased demand from domestic refineries, and the subsidization of the movement of western Canadian oil into the Atlantic provinces.

In the last two years several fiscal measures and policy changes have been introduced to stimulate the oil sector. Under the revised energy pricing agreement reached in June, 1983, more oil qualified for world prices and higher prices were established for pre-1973 oil. Shortly thereafter, the Alberta government introduced a 12-month royalty holiday for new exploratory wells. This program along with the entire royalty structure (eg., royalty tax credits and the existing royalty regime), tax incentives and exploration grants (Alberta Petroleum Incentive Program) is currently being reviewed by the provincial government. An announcement regarding changes to the existing regime is expected some time this summer. However, the most significant change in energy policy occurred in March, 1985, with the signing of the Western Accord between the federal government and the western producing provinces.

The Western Accord

The Western Accord represents a significant departure from past federal energy policy. The National Energy Program (NEP), which was introduced in October, 1980, and was implemented by the previous Liberal federal government, has been effectively dismantled.

The Western Accord contains three major components: deregulation of oil pricing and marketing, the phase-out of exploration activity grants (The Petroleum Incentive Program), and the gradual reduction of federal taxes at the wellhead (The Petroleum and Gas Revenue Tax). With the move to international oil pricing and marketing, the removal of discriminatory activity grants, and the gradual reduction of wellhead taxes, the Canadian oil industry is being truly cut adrift from government regulation and supervision for the first time since 1973. In essence, the Western Accord represents a departure from intense regulation to pure supply side economics.

The Western Accord also represents a significant break with the NEP's emphasis on enticing the industry to explore on the Canada Lands (ie., the Beaufort Sea and the eastcoast offshore). The Western Accord will encourage the industry to commit the bulk of their resources to the Western Sedimentary Basin; in conventional drilling, heavy oil upgraders and tar sands plants. Although the agreement does hold out the possibility that "the Government of Canada will consult with the Maritime provinces and Territorial governments on appropriate royalty incentives to help spur frontier petroleum investment."¹³

Ostensibly the Western Accord was designed by the new Conservative government in Ottawa and the producing provinces, with the assumption that the deregulation of oil prices together with, the phase-out of federal taxes at the wellhead, will ultimately result in more investment and exploration activity by the industry. It is too early to provide an accurate assessment of whether these policy changes will indeed lead to the desired results. Many energy analysts have suggested that the world oil glut and the fragile state of world oil

prices may have a dampening effect on the oil industry. However, the largest producers in the industry (the multinational corporations and the medium sized independents) certainly got what they asked for in the new agreement. The onus is now on them to demonstrate that the faith placed in them by the federal government and the producing provinces was justified. The small Canadian junior companies, many of them born in the highly regulated OPEC era, are going to face the largest adjustments. In the past four years in particular, small Canadian producers have enjoyed PIP grants, PGRTax holidays, Alberta royalty tax credits, an artificially high price for their new oil production, reduced drilling and field service costs, and low competition at land sales resulting in lower access prices. Since the Western Accord was announced, the small Canadian independent producers have been lobbying the provincial government to make some adjustments to the existing royalty structure, to ease their adjustment to the deregulation of oil pricing. As was mentioned previously, it remains to be seen whether their concerns will be addressed by the provincial government.

Despite these reservations, both the Canadian Petroleum Association (CPA) and the Canadian Association of Oil Drilling Contractors (CAODC), expect that the Western Accord will lead to a much-needed increase in the province's drilling rig utilization rate by 10 per cent in 1985 and possibly 15 per cent in 1986.¹⁴ It is important to note, however, that their optimistic forecast is based on the assumption that there will be little if any slippage in the world price for oil. By contrast, little improvement in gas drilling is seen until the late 1980's.

Enhanced Oil Recovery

The most promising source of future growth for the Alberta oil industry will be enhanced oil recovery. Interest has increased in tertiary light oil projects that are now eligible for front-end tax concessions and royalty relief. As well, ethane will be increasingly used in miscible flood enhanced oil recovery schemes. Significant

delivery of oil from these sources should be evident by the late 1980's. For example:

- Esso is currently proceeding with a \$1 billion project for miscible flooding of the Judy Creek oil field.
- Syncrude's 5-year, \$1.2 billion expansion of its synthetic oil plant at Fort McMurray is underway.
- Suncor has announced a \$500 million plan aimed at upgrading its oil sands plant at Fort McMurray in order to boost production capacity for synthetic crude and gas liquids.

Other firms are expected to announce similar schemes soon. The trend towards small scale projects will allow for further expansion in the future in response to changes in demand and market conditions.

Heavy Oil and Oil Sands Projects

The Alberta Energy Resources Conservation Board (ERCB) has forecasted that the increased supply of synthetic crude from heavy oil and oil sands projects will more than offset the decrease in conventional oil production over the next twenty-five years.¹⁵ Until a new upgrader is built, much of the bitumen from these projects will be exported to meet the need for asphalt in the American highway system. Stabilized oil prices and generous front-end tax and royalty concessions have prompted the revival of Esso's Cold Lake and B.P.'s Wolf Lake oil sands projects, although on a smaller scale than was originally conceived. The ERCB has approved an \$87 million oil sands project, being developed by Amaco Canada, in the Elk Point area of the Lindbergh oil field. While Husky Oil has moved a step closer to building its long-proposed heavy oil upgrader at Lloydminster. In June, 1984, Husky obtained guarantees of federal and provincial financial concessions to help reduce the initial costs of the project. The magnitude of this project, promoted as the largest energy development launched in the past five years, is indicated by its scheduled construction requirements of more than 8,000 man years (including field development). As the upgrading plant will be built

on the Saskatchewan side of the border, most of the work in Alberta will be related to the development of the heavy oil deposits and the construction of a pipeline network.

Summary

In spite of these encouraging signs, future growth in Alberta's oil industry is expected to be much slower than in the late 1970's and early 1980's. This is due to expectations of flat oil prices and slow growth in world economies. Companies will increase employment slowly, despite the Western Accord, because they do not want to risk overstaffing to boom proportions again.

Natural Gas

The question over natural gas pricing, both domestic and export, has proven to be a vexing one. The shut-in natural gas problem persists in Alberta due to depressed demand in both the domestic and export markets. Alberta is faced with large surplus quantities of gas. The United States is currently faced with a surplus of deliverable gas, which is expected to correct itself by the end of 1985 or early in 1986. Due to the gas deliverability surplus, exports to the U.S. were expected to be 45% of allowable volumes in 1984.¹⁶ In other words, Canadian gas producers were only able to sell about 45% of the total amount of gas that the NEB would allow them to sell on the export market.

The province of Alberta would like to sell more gas on the export market, but has found it difficult due to the U.S. gas situation and the pricing of gas for export. Domestic gas sales should improve if there is a sustained recovery in the Canadian economy.

Domestic Gas Sales

The federal government has introduced several measures to give an immediate boost to gas marketing in Canada. The federal tax on natural gas and gas liquids was eliminated in January, 1983. In May of 1984, the governments of Alberta and Canada agreed to a three-year incentive program designed to maintain and expand natural gas sales to domestic industrial users in eastern Canada. Basically, given certain criteria, domestic purchasers of gas receive discounts. This has resulted in natural gas distributors and electrical utilities battling for shares of the energy market in Ontario and Quebec. This agreement should stimulate additional domestic sales, but the whole question of pricing gas in the domestic market remains. The Western Accord stipulates that an agreement on natural gas pricing will be worked out between the federal government and the producing provinces by November, 1985.¹⁷ However, given the complexity of the issue, together with the political instability in Ontario and Quebec, it remains to be seen whether this issue can be resolved by November.

Export Gas Sales

New major gas contracts have been struck between Canadian gas exporters and American utility companies. The reason for increased gas sales to the U.S. stems from the fact that export gas prices can now be determined by the market. The federal government is now allowing gas exporters to deal directly with U.S. buyers, in an attempt to make the export price of gas more attuned to market forces. There is a proviso however, that apart from allowable export values which are set by the NEB, export gas prices may not fall below the Toronto city-gate price. This should, to a degree, help alleviate the shut-in gas problem in Alberta.

The current natural gas "bubble" in the U.S. is expected to shrink over the medium term. This will be due in part to a recovery in demand, but also due to declining gas deliverability in the U.S. With the sharp reduction in drilling activity, natural gas reserves

have not been maintained there. Although there is some variation on the timing among industry experts, the American gas market will probably come into balance in late 1985 and move into a shortage situation in 1986. This will lead to opportunities for significantly increased Canadian exports. The major growth area for Canadian exports will be in the northeastern U.S. market. Trans-Canada Pipelines recently won its first contract to sell western Canadian gas to this large market. By the late 1980's, the NEB anticipates that actual gas exports will be 90% of allowable exports.¹⁸

The Oil and Gas Drilling and Well-Servicing Industry

The drilling industry has been showing steady improvement over the last two years. Although activity will continue to concentrate around conventional and heavy crude development, as natural gas exploration is not expected to pick up substantially until later in the decade.

In response to recent drilling and well-servicing incentive programs (primarily aimed at increasing the industry's cash flow), increased activity in enhanced oil recovery projects and heightened activity in experimental oil sands projects, drilling activity improved markedly in the province. Rig utilization rates (a measure of drilling activity and productivity) in 1984 were well above the rates established in 1983.¹⁹ Preliminary data for 1985 suggests that rig utilization rates may increase by 10% this year.²⁰ However, employment figures do not yet reflect this increase in drilling activity. Although sustained activity in this sector, together with a generally favourable outlook for the overall oil and gas industry, should be mirrored by increased employment levels in the future.

Over the period of the recession, drilling and servicing contractors had to work on very slim profit margins (many were not able to and consequently went onto receivership) and therefore reduced their work force to the absolute minimum. It will take continued strong activity in the oil and gas industry to convince drilling and

well-servicing firms that the industry is returning to more profitable times, only then will they undertake to hire additional labour.

2) The Coal Industry

The coal industry's prospects will improve with the recovery in the national and international economies. The prospects are generally brighter for thermal coal (despite some power plant construction slowdowns in Alberta) than for metallurgical coal -- which faces stiff foreign competition and structural problems in the steel industry.

Alberta's coal industry is a relatively small employer, but a significant contributor to the province's gross domestic product. In the past year, it has been out performing the national average in terms of rebuilding coal production and sales. These results are encouraging, but a full-fledged recovery in the industry has been hampered by several market factors.

Coal prices are weak due to the worldwide coal surplus and tough competition from South African and Australian producers. With slow economic recovery in key export markets and increased competition due to the abundance of lower-priced residual oil, the demand for both metallurgical and thermal coal remains depressed below pre-recession levels.

The behaviour of Japan, the leading foreign purchaser of Alberta coal, is a case in point. With reduced demand for their output, Japanese steel mills and utilities have tried to negotiate price and volume cuts in their contracts with Canadian coal suppliers. Under these pressures, Alberta mines have been forced to reduce operating costs and employment. Some mines have closed, while the development of new coal sites has been deferred.

Metallurgical Coal (Steel Industry)

Some of the world's major steel makers, including the "Big 5" in Japan, have recently shown signs of financial recovery. However, their return to profitability is due in part to significant cuts in excess and absolute capacity. Over the medium term, the demand for steel will improve as the world economies strengthen, but the recovery will be more modest than in the past because of the following structural changes:

- Most industrialized countries will experience slower growth in GNP and capital expenditures.
- Increased consumer conservation will lead to slower turnover of such steel products as automobiles and appliances.
- With technological advances, more steel substitutes will be designed and applied.²¹

Consequently, the demand for metallurgical coal for steel production will grow a good deal slower in the late 1980's than in the preceding years. In fact, Japan has reduced its forecast of its increase in coal use between 1985 and 1990 from 25-30 per cent to 12 per cent.²² Therefore, at best, Alberta metallurgical coal producers can expect to maintain the terms of their long term export contracts. However, no significant expansion in employment beyond current mine capacity requirements is expected over the medium term.

Thermal Coal (Power Generating Plants)

Although the demand for Alberta thermal coal is also currently depressed, prospects for this type of mining appear more promising. Lower world oil prices have slowed the conversion to and construction of coal-fired electrical generating stations, but this is expected to be a short term slowdown. Japan is particularly committed to its off-oil program and is looking to diversify its sources of thermal coal. The Genesee and Sheerness generating plants and their adjacent coal mines have been delayed, but will come on stream in

Alberta between 1986 and 1991. Alberta officials are pursuing increased coal sales for power generation in Ontario. However, the NEB's Canadian Energy Supply and Demand Technical Report, predicts that coal imported from the U.S. will maintain its price advantage over western Canadian coal due primarily to lower transportation costs.²³

A promising new application of thermal coal is its use in providing heat for the recovery of heavy oil and bitumen from the deep oil sand deposits in Alberta. In light of these opportunities, it appears likely that the six thermal coal projects presently on hold will proceed and generate employment in Alberta prior to 1990.

3) The Forestry Industry

Another component of the primary sector is the forestry industry. Slightly more than 1.2 billion board feet of lumber was produced in Alberta in 1984, which was up 200 million board feet from 1983, and well ahead of the 767 million yielded a year earlier.²⁴ Three factors were the cause of this increase in production in the forestry industry. Last year's upturn in North American housing markets (excluding some markets, in particular Alberta, which is only now experiencing an upturn in the housing market) together with the vast disparity between the American and Canadian currencies (which had a significant effect on the increase of softwood lumber exports to the U.S.) and the U.S. decision not to impose tariffs on Canadian softwood exports. Although this last factor has become more tenuous since the U.S., earlier this year, lowered their import quota on the amount of softwood lumber they will allow into the American market. This action has hurt the economy of B.C. more than it has Alberta, yet it will affect the Alberta forestry industry in the long term, especially if the current import quota is maintained or lowered even further.

Despite this increase in production, as existing inventories of felled trees were utilized, the full impact of this resurgence in the forestry industry was not felt in the harvesting sector. As well,

even though production and exports increased, lumber and pulp prices remained weak, therefore there was little improvement at the company profit level. As a result, employment in this sector has remained at recession-reduced levels.²⁵ Recently there has been some resurgence in product prices, but the industry has a long way to go to recover from the heavy debt loads and the financial losses which were incurred during the recession.

Consequently, while it has been estimated that the existing mills in the province could be expanded to produce an additional 150-200 million board feet of lumber annually, any expansion seems unlikely until balance sheets have solidly recovered. Particularly disappointing for the upstream forestry industry was British Columbia Forest Products announcement in March, 1984, that it is not in a financial position to proceed with the construction of three major lumber mills in Alberta. Therefore, with no firm plans for expansion, employment in the forestry sector is expected to remain relatively stable at recession-reduced levels over the short term.

4) The Agricultural Industry

After two years of setbacks, employment in Alberta's agricultural sector rebounded in the fiscal year 1983/84, to post a strong annual growth of 8.8 percent.²⁶ This sharp upturn is surprising since economic conditions would not appear to support it. Alberta's farm cash receipts were down by 3.5 per cent in 1983/84, which was down from the already depressed level of 1982/83.²⁷ In the last two years both crop and livestock operations earned reduced revenues. Weak wheat prices are not expected to recover in 1985 due to the glut which exists in the international market. Beef producers suffered in 1984 as prices and exports fell due to the worldwide recession, and the 1985 scene does not look much better.

Crippling interest rates, falling commodity prices and disappearing equity saw 74 Alberta farmers declare bankruptcy in 1984.²⁸ This is a significant jump from the 47 who went bankrupt in

1983, 24 in 1982, 18 in 1981 and only 8 in the prosperous year of 1980.²⁹ Since the recession hit in 1981/82, farm equity has dropped in Alberta by 17 per cent.³⁰ During the same period, input costs increased by 29 per cent while farm receipts only rose 20%.³¹

The growth in employment in Alberta's agricultural sector can probably best be explained in terms of a traditional pattern -- workers discouraged by prospects in urban centres have returned to help out on the family farms in rural Alberta. This trend has carried through 1983/84 and into 1984/85, where, once again, employment is anticipated to record a sizeable gain (8.5 per cent, an increase of 7,000).³² One would expect that agriculture's capacity to absorb this influx of labour must now be nearly exhausted. Therefore, it is not anticipated that employment will grow in this sector past 1984/85; and indeed, with the expected acceleration in GDP growth, employment in agriculture should decline as employment opportunities in the other industrial sectors improve once again. By 1986/87 employment levels in the agricultural sector should once again approach the lower 80,000 mark.³³

It has been predicted that the new increasing grain freight rates will force some farmers out of business. However, the net effect of the passage of the Western Grain Transportation Act, which replaced the Crow's Nest Pass Agreement on January 1, 1984, is not yet clear. Farmers will pay a greater share of grain transportation costs under the new regime; however, the Act does provide grain producers with some assistance to adjust to rising freight rates. The ceilings on the cost-sharing and safety net clauses are to be phased-in to give producers more protection when freight rates first start to increase. These provisions and the payment of the Crow Benefit to the producers will continue, over the long run, to protect farmers from unlimited freight rate hikes. Producers could feel more of a pinch in the 1986/87 crop year when their share of annual transportation cost increases rises from the first three to six percentage points. Producers will have to weigh the cost of higher grain transportation rates against the benefits of the railway's investments in an expanded

and upgraded freight system. With the additional rail capacity, farmers will be encouraged to *produce more and move their product to* export positions. Efforts have been intensified to market Alberta's agricultural products abroad, particularly to the Pacific Rim and China.

Another factor which will lead to reduced employment levels in agriculture in the long term, centres on the structural change that has occurred within this sector over the past number of years. There has been a shift towards the amalgamation of farms and, as a result, there will be a reduction in the total number of farms and farm hands. With the incentive for greater production now that rail capacity is being expanded, the trend to large scale, more capital-intensive farming operations should continue. If so, we should see agricultural employment shrink slightly or, at least, see its share of total employment decline over the medium term.

In sum, 1985 will be a year of assessment for farmers. They will have to evaluate how the change in freight rates affects the rate of return on different-priced crops. Grain farmers especially, may well consider maximizing their returns by altering or diversifying their crop mix. They will probably forego adjusting their farm work force until these decisions have been made.

B) Secondary Sectors - (Manufacturing and Construction)

Much of Alberta's manufacturing sector is based on the upgrading of the province's vast agricultural and natural resources. As such, it is sensitive to the cyclical swings in national and international demand for the resources and their primary products, as the recent boom-bust experience illustrated. Consequently, diversification in manufacturing is imperative to ensure Alberta's future economic prosperity.

In 1984, the provincial government established a venture capital firm and a medical research foundation to encourage the

development of a high technology and bio-medical research and development sector in Alberta. High technology manufacturing could add substantially to the province's gross domestic product over the decade, but there are doubts that it will generate a large number of jobs. Furthermore, most of the jobs in emerging high technology companies tend to be "low tech", in traditional areas such as clerical and light assembly occupations.

As manufacturing employment in Alberta is expected to be slow to diversity into new areas, its short to medium term outlook will hinge primarily on the resource-related industries. Recovery appears to have taken hold in some of these industries that are more export-oriented, while there is continued weakness in those that rely on the provincial economy. Manufacturers of wood products, petroleum and coal products, and chemicals and chemical products expanded their workforces and value of shipments in 1984.³⁴ Manufacturers of petroleum, petrochemical, and fertilizer products should continue to benefit from the general economic recovery, although there are concerns that feedstock costs may limit their competitiveness, as well as concerns related to general overcapacity in the world petrochemical sector. The agricultural products sector (particularly meat packing) has a less positive outlook; and the primary metal, metal fabrication and machinery sectors continued to contract.³⁵ These industries are closely linked to the drilling industry and, therefore, their health depends on a recovery in the provincial oil and gas industry, and increased construction activity. Specifically, the existing rig fleet is adequate to deal with the current increase in activity in the drilling industry. Therefore, the metal fabricating industries are not anticipated to see much growth through the medium term. Finally, food and beverage processing continues to be Alberta's largest manufacturing industry, with \$3.6 billion worth of shipments in 1982/83, or almost one-third of total manufacturing shipments.³⁶ However, employment in food and beverage processing has not shown any significant improvement since the fiscal year 1982/83.³⁷

In aggregate, the manufacturing sector in Alberta started to strengthen last year. The total value of manufacturing shipments increased by 2.1 per cent in 1983/84.³⁸ After two years of substantial cutbacks of manufacturing shipments, which hit an annual rate of 13.3 per cent in 1982/83, employment recovered by 0.6 per cent in 1983/84.³⁹ Recent employment estimates for manufacturing show a slight decline from levels achieved last year, and do not bode well for rapid improvements in this sector.⁴⁰ In fact, over the medium term, it is expected that there will be little if any employment growth in manufacturing. This aggregate prediction is based on the following outlook for Alberta's major manufacturing sectors.

1) The Petrochemical Industry
Petroleum Refining

The petroleum and coal products industry in Alberta primarily consists of refineries. While Texaco Canada has added to the nationwide series of refinery cutbacks, by closing its Strathcona plant, three refinery projects (two expansions and one new plant) that were initiated during the boom, have come on stream in Alberta. The demand for refined petroleum products has started to recover from its recessionary slump, especially in eastern Canada. However, generally slower economic growth and increasing energy conservation, together with competition from alternative fuels, could constrain growth in petroleum product consumption during the rest of the decade. Industry officials have stated that the new refineries in Alberta could lead to excess processing capacity, which raises the possibility of additional plant closings in the future. On balance, however, petroleum refining in Alberta is expected to contribute small gains to employment in the next few years.

Petrochemical Products

The revival in the Canadian and American economies stimulated production, sales and employment gains in Alberta's

petrochemical and fertilizer industries in the past year. While the construction of nine approved petrochemical projects await a more solid recovery in world product markets; four plants started up in 1984 and another will begin operating in 1985. As these represent the last major projects of the first phase of petrochemical development in Alberta, the future of the industry is now being assessed.

Petrochemical production is shifting away from the traditional industries in Japan, Western Europe and the U.S., to areas such as Saudi Arabia, Mexico, Indonesia and Canada, all of which have the comparative advantage of ample feedstocks.⁴² With the closures of traditional less-competitive plants and the renewed growth in petrochemical demand, Alberta has an opportunity to expand its share of the world market. The province boasts some of the most modern world-scale petrochemical plants which have the advantage of being based on ethane feedstock.

The industry is currently concerned about front-end taxation and the feedstock prices it faces. During the recession, ethane prices declined on the American Gulf Coast, while they rose in accordance with the energy pricing agreement in Canada. A national petrochemical task force recommended recently, a 15 per cent cut in natural gas feedstock prices as a step towards a flexible pricing system.⁴³ They claimed that this was a necessary step to keep Canadian petrochemical producers competitive and growing in global markets. The Alberta government hopes that in its current negotiations with the federal government on the issue of natural gas pricing, that they will be able to resolve the pricing issue in the near term in a way that is conducive to long term petrochemical investment. The provincial government is also negotiating with the U.S. and Japan to expand these two key petrochemical export markets. With such supportive policies and world market conditions, Alberta's petrochemical industry is expected to be a major source of economic and employment growth at least through the medium term.⁴⁴

2) The Meat Packing Industry

Canada's meat packing industry, a substantial portion of which is based in Alberta, has been forced to undergo broad rationalization in the past decade. The industry has suffered heavy financial losses due to plant overcapacity and obsolescence. In Alberta, it has been reported that there are thirteen plants doing the work of two modern plants. Declining meat consumption has also hurt the industry. In the past two years, the recession has compounded the industry's problems, as the American meat packing industry has been able to renegotiate wages that are about half the Canadian rates. The differential in wages, which is the second largest cost to the industry, has cut Canada's competitiveness in export markets, in particular in the lucrative Japanese market. The industry's only advantage in the export market at this time is the value of the Canadian dollar vis-a-vis other major currencies.

Under these pressures, the Canadian meat packing industry is attempting to eliminate inefficient and excess plant capacity, and to bring labour costs into line with those in the U.S. Canada Packers decided last year to close its slaughter houses in Edmonton and Calgary and to rationalize operations in Lethbridge. This led to the layoff of about 400 employees. The Gainer's plant in Edmonton announced the layoff of 125 workers in February, 1984. In June of 1984, Burns Meats decided to permanently close its Calgary plant and layoff 600 striking workers who had rejected wage cuts of 40 percent. More plant closings and layoffs are expected until the industry's competitiveness and cooperative labour-management relations are restored. Although restructuring will be difficult, it is expected that the meat packing industry will maintain a major, if reduced, presence in Alberta over the medium term.

3) The Wood Products Industry

Alberta's wood products industry posted notable gains in production and employment in 1983/84.⁴⁵ However, data for 1984/85

show reduced employment levels for the wood products industry.⁴⁶ The slumping Canadian housing market contributed to the lower demand for building materials. The decision to cancel construction plans for three new mills in the province suggests that the industry does not anticipate a quick turnaround in the demand for wood products. In light of these facts, it is not expected that there will be much expansion of employment in the medium term, in Alberta's wood products industry beyond its pre-recession level.⁴⁷

4) The Construction Industry

The construction industry is expected to continue to be relatively stagnant, particularly in the commercial and residential sectors. Office vacancy rates in Calgary and Edmonton, while having fallen recently, remain the highest across Canada. Activity in this particular sector is not expected to improve until the latter part of this decade. Apartment vacancy rates are also high, which will limit multiple unit construction. Single unit housing construction will be well below pre-recessionary levels owing to both slower population growth and the forecasted slow economic recovery.

Having expanded to boom proportions in the early 1980's, Alberta's construction industry is still reeling from the subsequent sharp downturn in building investment. Many construction companies have gone bankrupt, while there is fierce competition among the remaining contractors for the few available tenders. The construction industry has incurred the most severe employment cutbacks of all of Alberta's economic sectors in the past two fiscal years. Annual losses reached 20,000 jobs or 19.1 per cent of the construction workforce in 1983/84.⁴⁸ The fiscal year 1984/85 shows even further declines, with employment averaging levels 20 per cent below 1983/84 levels.⁴⁹ This year, all building sectors -- residential, commercial and industrial -- will fall short of 1983/84 levels, as surplus capacities must first be absorbed before new projects will be considered.

Residential Construction

Alberta was the only province where residential construction continued to decline in 1983/84.⁵⁰ Total dwelling starts were down by 36 per cent over the year and would have fallen further if not for a spurt of "forward building" in the mid-year to take advantage of the expiring federal housing incentive program (ie., MURB tax incentive).⁵¹ Since then, single family dwelling starts have been depressed by the uncertainty caused by the recent increases in unemployment and mortgage rates, the net migration out of the province, and the continuing large surplus of unsold homes. Of particular concern to homebuilding is the possible resurgence of Canadian interest rates in lockstep with those in the U.S. The Alberta Construction Association (ACA) estimates that the value of residential construction will fall by a further 8.8 per cent in 1985.⁵² In fact, residential construction is not expected to turnaround until the inventory of unoccupied accommodation is depleted. Clayton Research Associates Ltd. forecasts that, even if there is no new construction, it would be mid-1985 before the excess supply of ownership housing is absorbed and mid-1987 until the surplus of rental accommodation is dissipated.⁵³ There has been a significant drop in multiple unit construction, owing to high apartment vacancy rates in Edmonton and Calgary. Vacancy rates have only recently fallen below double digit figures; however, Edmonton and Calgary still retain the highest rates in Canada.

The movement towards a balanced residential market will be primarily the result of builders restricting themselves to building on demand, whereas they previously built on speculation. The last budget put forth by the federal Liberals in the spring of 1984 attempted to stimulate housing construction in Canada in two ways; the Mortgage Rate Protection Plan, and the tax breaks available until the end of 1985 under the revised federal Registered Home Ownership Savings Plan. However, the first budget put forth by the new Conservative federal government has proposed the phasing-out of both of these incentives. In sum, slower population growth and a slowdown in the rate of new

family formation, as the baby boom generation matures, will limit residential construction from returning to recent boom levels in the medium term.

Commercial Construction

As a result of overbuilding during the boom followed by the recessionary downturn in demand, commercial construction is now constrained by high office vacancy rates, which sit around the 20 per cent range in downtown Edmonton and Calgary.⁵⁴ Some projects carried over to sustain commercial activity last year, but little new investment has surfaced now that these projects have wound up. Consequently, the Alberta Construction Association has forecasted that commercial construction will decline more sharply than any other building sector this year.⁵⁵ Furthermore, as it is unlikely that the currently available floor space will be occupied until at least the latter part of 1986, the outlook is for very limited commercial building for the next few years.⁵⁶

Industrial Construction

Generally across Canada, business investment has been slower than normal in recovering from a cyclical downturn in the business cycle. The private sector has been reluctant to undertake capital investment given the underutilized capacity which exists in the Canadian economy, low corporate liquidity, heavy debt loads, and uncertainty about interest rates -- already historically high in real terms. In Alberta, industrial construction is particularly depressed because of the downturn in energy-related investment in recent years. At present, there are six major coal developments, nine petrochemical plants, and two utility projects that have been delayed, awaiting a strong recovery in domestic and world demand for their products. Numerous developments, including refinery expansions and petrochemical plants, which were initiated during the boom are now winding down. Consequently, spending on oil and gas facilities, which has traditionally been the biggest category of industrial construction

spending in Alberta, is expected to fall by 30 per cent this year, according to the ACA.⁵⁷

The revival of several oil sands projects in northeastern Alberta will bring some limited relief to the provincial industrial construction sector. The megaproject concept has been replaced by the modular approach, so although peak construction requirements will be lower at any one time, construction will be spread out, covering a longer portion of time. Construction of the first phases of oil sands plants at Cold Lake and nearby Wolf Lake will require a peak work force of 450 and 700 respectively, and are scheduled for completion in 1985.⁵⁸ Work is continuing on Syncrude's five-year expansion which is expected to involve 2,000 jobs at the peak of construction in 1986/87.⁵⁹ Suncor's recently announced expansion is also planned to cover 5 years and is estimated to cost \$500 million. Construction of the heavy oil upgrader project at Lloydminster has moved closer to reality due to last year's federal-provincial agreement on financing, but the final completion date of the project is still uncertain. As well, most of the construction opportunities which are related to this project on the Alberta side of the border, would be related to oil field development. Finally, the western rail developments that got underway following passage of the Western Grain Transportation Act, are scheduled to generate industrial construction jobs over the next decade.⁶⁰

Public Construction

Public construction will feel the pinch of government spending restraint during the next several years. The 1985 public works budget was cut in all areas except for the multi-year highway and hospital construction programs.⁶¹ Besides these two programs, the preparation of facilities for the 1988 Winter Olympics will be the only other major publicly funded construction project to be completed during the next four years.

Construction Employment

Under the pressures of sluggish economic conditions, net interprovincial out-migration, surplus capacity, and the threatening rebound in interest rates, a further heavy fallout in construction employment is expected in 1985.⁶² In the fiscal year 1984/85, job cutbacks in the construction industry increased by roughly 20 per cent.⁶³ These job cutbacks have particularly serious implications for young men who typically provide much of the labour for the construction sector. The only positive aspect of the construction industry in 1984/85 has been on the labour relations scene, where unions began to react against contractor's attempts to rollback negotiated wages and to switch to cheaper non-union tradesmen.

Improvements in employment in the construction industry generally lag increased activity in other sectors of the economy. The first signs of a turnaround in the provincial construction sector are expected in 1986, and will reflect a very marginal gain in employment.⁶⁴ Construction building activity has declined by 8, 18 and 14 per cent over the last three years, and the Conference Board of Canada expects 1985 to show a further decline in construction activity.⁶⁵ Therefore, in the current fiscal year, we will again see little improvement in employment in the construction industry due to the overbuilding of the boom years. In 1985, employment in the construction industry is estimated to range in the mid-70,000 range.⁶⁶

Construction Industry Forecast

Throughout the latter half of this decade, Alberta's construction industry will return to growth, but it will follow a new pattern. There will be no more advanced buildup on speculation of future markets. Builders will respond only to direct demand and will carry little inventory. Employment growth will only follow the pace of economic growth. Of course, the health of the construction industry will ultimately depend on the future path of interest rates.

However, it is unlikely that pre-recession employment levels will once again be attained in the 1980's.

III) Tertiary Sectors (The Service Industries)

1) Transportation, Communications and Utilities

Employment in this industry group reversed a two-year decline to post moderate growth of 2.3 per cent in 1983/84.⁶⁷ All three subsectors contributed to last year's expansion, but the strongest growth occurred in communications. In fact, the communications sector has grown virtually throughout the 1980's. Employment in the largest subsector, transportation, has been more variable, reflecting its dependence on conditions in the goods-producing industries. This industry has a long way to go to recover from two years of substantial downsizing.

The Transportation Industry

The transportation industry is vital to economic development in Alberta given the province's reliance on exports and its distance from major markets. Rapid economic and population growth have led to the development of an extensive interlocking transportation network in Alberta. The transportation system should continue to improve during the rest of the decade. The popular passenger rail service from Vancouver, via Jasper, to Edmonton was restored by the federal government in May of 1985. Some construction, estimated to cost \$12 million, will be undertaken this fiscal year to upgrade the line for smoother operation.⁶⁸

With the proclamation of the Western Grain Transportation Act in November, 1983, the two national railways are proceeding with a major expansion and upgrading of the freight rail system. Of the railways' total \$16.5 billion capital budget, \$5.4 billion is earmarked for projects in Alberta over the next ten years.⁶⁹ Construction workers will be required for: the expansion and modernization of terminal facilities; the installation of centralized

traffic control; the maintenance of grain-dependent branch lines; and the completion of double-tracking of the main northern lines in Alberta. More technicians will be employed on a permanent basis to service and operate the expanded fleet of diesels and rail equipment. Further transportation employment opportunities will arise if the province pursues the development of an inland port and container system in Alberta.

There is a growing trend in Canada towards the deregulation of the transportation industry, as there was a few years ago in the U.S. The federal government moved last year to deregulate Canada's airlines. Provincial policies changed in May, 1984, to allow chartered bus companies to operate more freely in Alberta. Federal and provincial transport ministers have agreed to reduce regulation of the trucking industry. The impact of these measures on employment in transportation will depend on the net effect on operator revenues of the anticipated increased traffic versus reduced prices and rates.⁷⁰

The Communications Industry

The communications industry, consisting primarily of establishments in radio and television broadcasting, the print media, telephone systems, telegraph and cable systems, and the Post Office, has grown over the last several years to accommodate the needs of an expanded Alberta population. Although population growth will be slower over the next few years, the communications sector will continue to diversify as we move into an information society, where the development and maintenance of an advanced telecommunications network will be critical.

The Utilities Industry

The most positive aspect of the utilities sector is that both units of the Keephills Generating Plant are now complete and operating. However, on the negative side, reduced forecasts of Alberta's electrical energy demand prompted the Alberta Energy

Resources Conservation Board to defer the commissioning dates of two other coal-fired generating plants in Alberta.⁷¹ Start-up of the two Sheerness units have been delayed by six months and four years to January, 1986 and October, 1990.⁷² The operation of the two Genesee units was postponed by three years and five years to October, 1989 and October, 1991.⁷³ Consequently, the impact of these projects on employment (operating personnel) will be similarly delayed.

Forecast

All told, 1985 will see a marginal loss in employment in the transportation, communications and utilities sector, with employment estimated to settle in the mid-ninety thousand range.⁷⁴ This will come about due to the slight losses in the transportation sub-sector. Little change in employment in the overall industry is expected in the subsequent two fiscal years.⁷⁵

2) The Retail Sales and Trade Industry

Alberta's retail sales and trade industry contracted over the 1982/83 and 1983/84 fiscal years, after quickly expanding to meet the purchasing needs of the province's once rapidly growing population and businesses.⁷⁶ Though wholesalers started to rehire in 1983/84, their efforts were more than offset by continuing retrenchment in the large retail sector.⁷⁷

Alberta merchants, who once prospered with sales above the national average, now trail far behind. They virtually missed out on the upturn in consumer expenditures that led the first stage of the national economic recovery. The value of retail trade in this province only improved by 2.2 per cent in 1983/84, compared to the national increase of 7.7 per cent.⁷⁸ Much of the new consumer spending in eastern Canada has concentrated on durable items such as motor vehicles, household appliances and furniture. Albertans purchased large quantities of these big ticket items during the boom period, and so are less likely to replace them now, especially in

light of the depth and duration of the recession in this province. In 1983/84, sales of durable goods decreased by 10 per cent in Alberta, while they increased by 20 per cent in Canada.⁷⁹ Discretionary purchases are also depressed, as Albertans, who have the highest personal debt and mortgage burden, struggle just to make their monthly payments.

According to the Conference Board of Canada, the outlook for consumer spending in Canada is not good. Data for the beginning of 1985 show that national growth in consumer spending has slowed; a result of decreasing consumer confidence and high real interest rates.⁸⁰ These factors, coupled with the expected weak population, employment and wage growth, will constrain the recovery in consumer spending and retail sales in Alberta. Besides the impact of small nominal wage gains and higher prices, the real disposable income of Alberta consumers will be depressed by the 13 per cent provincial tax increase which took effect this year.

In light of this outlook for consumer spending and retail sales, employment in the retail sales and trade industry is expected to continue to be reduced this year.⁸¹ A decline of three per cent in employment was witnessed in the last fiscal year.⁸² A slight recovery in employment is expected in 1986, while 1983/84 levels will only be achieved again in 1986/87.⁸³

Forecast

With the expectation of recovery in employment and economic growth in 1985/86, business and consumer confidence should brighten and translate into increased retail and wholesale purchases. In response, the trade sector will start to staff up, but slowly due to its lingering concerns about the durability of the recovery. As the recovery extends and strengthens into the latter half of the decade, employers will be more confident about adding to their sales forces. However, slower population and economic growth in Alberta will limit

the retail sales and trade sector over the medium term from once again expanding at its robust pace of the early 1980's.

3) Finance, Insurance and Real Estate

This sector continued to grow until last year, when it experienced the most severe retrenchment next to the construction industry. Numerous companies that sprang up to participate in Alberta's boom could not wait any longer for a provincial economic upturn. With the excess capacity in this sector, competition was intense for the few available transactions. In addition, clients were defaulting on payments for loans and services previously extended. Under these pressures, some firms were forced into receivership, while others merged to share overhead and operating costs. As a result, employment in insurance and real estate was particularly hard-hit, while that in finance fared better in terms of cutbacks.⁸⁴

The Finance Industry

The finance sector is the largest employer in this industry group. It was more stable in the early 1980's; however, it was not hit as hard during the recession because it did not expand as dramatically as the real estate and insurance sectors during the boom period. Employment growth in the finance sector has been constrained by the implementation of labour-saving devices, such as automated teller machines and data input and retrieval systems. Since the financial industry is now highly automated, further worker displacement due to technological innovation is unlikely in the near term.

Future employment growth in this sector will depend on the demand for corporate and consumer financing. The demand for business funds will remain sluggish until investment picks up, after the surplus industrial capacity is utilized and recovery takes hold in Alberta. Even then, much of the need for financing will be met through the stock market and retained earnings rather than bonds and

bank loans. Corporations are striving to reduce their debt/equity ratios so they do not risk getting caught in highly leveraged positions again. In terms of consumer financing; borrowing for durable purchases has increased, though not as much in Alberta as in eastern Canada.⁸⁵ Lately, there has also been a spurt of homeowners locking in new mortgages before rates rise again. However, over the medium term, slow population growth in Alberta will limit expansion in the consumer finance and insurance sectors.

Though the demand for new financing in Alberta may be slow to recover, there are proposals to develop Calgary and Edmonton into international financial centres. This choice, as part of the strategy to diversify Alberta's economy, is a good one since finance has been forecasted as a high-growth area over the long term. New federal legislation which was introduced in April, 1984, raised the ceiling on foreign bank assets, this could prompt the establishment of more Canadian subsidiaries. The latest addition to Alberta's financial community is the Bank of Alberta. Its plans to operate initially as a wholesale bank and then later expand into retail outlets, reflects its confidence that Alberta will prosper economically in the future.

The Real Estate Industry

Real estate market activity collapsed in Alberta in 1983, because of weak population growth, high unemployment, and low utilization rates of existing buildings. This forced a large number of real estate brokers and support staff to leave the industry. In 1984, however, the residential real estate market rebounded. House sales in Alberta rose over 30 per cent from a year earlier, with 19 per cent and 41 per cent increases in the cities of Edmonton and Calgary, respectively.⁸⁶ Homebuyers have acted to take advantage of foreclosures, government incentive programs, reduced house prices and low mortgages rates while they last. The renewed market interest in real estate is expected to slow the slide in house prices, though it will continue to be a buyer's market. The Canada Mortgage and Housing Corporation is optimistic that house sales will be up by 5-10 per cent

this year in Alberta.⁸⁷ This will bring some much-needed business to the remaining real estate agencies, though they will probably not re-expand their sales forces in the near term. There is not much sign of an upturn in the non-residential side of real estate, as most markets remain over supplied with retail, commercial, industrial, and office space.

The medium term outlook for the real estate sector hinges on what happens with inflation and interest rates over the rest of the decade. If inflation rebounds, so too could the interest in real estate as an inflation proof investment. A resurgence in interest rates would hamper real estate and construction activity.

Forecast

Given the above outlook, together with recent employment estimates for the finance, insurance and real estate industries, employment is anticipated to contract slightly through 1985 to register a range of 56 to 58 thousand.⁸⁸ The following two fiscal years will see employment stabilize at the 1984/85 level. These industries will see little or no employment growth due to the fact that the capacity in place at the end of 1984/85 will be sufficient to handle the limited economic growth in the 1985/86 - 1986/87 period.⁸⁹

4) Community Service, Small Business, Tourism and Personal Services

The services sector is distinguished among the nine major industry groups as the largest employer and the only group to continue to grow throughout the past three years. In 1983/84, it employed 353,000 people or 31.6 per cent of the total workers in the province.⁹⁰ In contrast, this industry accounted for 27.7 per cent of total employment in 1980/81.⁹¹ The services industry has seen its share of total employment increase as a result of growth in the sector itself, and also because the goods producing sector has contracted. It has absorbed many of the new adult female labour force participants, albeit often into traditional, low-paying, part-time

jobs. Employment growth in the services sector has stemmed from the rapid increase in Alberta's population and poor labour productivity performance. However, changes in these factors are expected to weaken employment growth over the medium term.

Community Services

Many of the new service jobs have been and will continue to be generated in the health and welfare area. Health care workers will be required to staff the series of new hospitals planned and under construction in Calgary, Edmonton, and rural centres throughout the province. The demand for health services will accelerate with the aging of the population. The extent to which employment is expanded to deliver these services will depend on the resolution of the debate on health sector financing.

The education system will also be influenced by demographic trends. Declining birth rates in the 1960's and 1970's mean that there will be fewer youths of high school and university age through to 1990. The demand for primary school teachers will increase in the next 4-5 years as the children born during the recent "mini baby boom" reach school age. Births in Alberta increased from 41,700 in 1982 to 45,600 in 1983.⁹²

The Tourism Industry

Tourism is being promoted by both the provincial government and many industry analysts as a potential growth industry for Alberta. The province's facilities are being aggressively marketed to attract Canadian and international tourists and business clients. The continued strength of the American dollar should encourage more visitors from south of the border. Some of the tourist traffic to Expo '86 in Vancouver could spill over into Alberta. Of course, the main international event Alberta will host during the next few years will be the 1988 Winter Olympic Games, centered in Calgary. The \$100 million capital budget which has been committed to begin work in

developing the Olympic facilities will give a much-needed boost to the construction industry in Calgary.⁹³ The staging of the Games is expected to inject many tourist and business dollars into Alberta's economy.

Personal Services

The trends of slow population growth, high unemployment, and depressed real disposable income will constrain future expenditures on personal services, recreation, accommodation and food services. Recovery in business management services is tied to a pick-up in economic activity, which is forecast to build slowly from 1985/86. Many engineering consultant services, which have been hit by the downturn in the provincial construction and oil and gas industries, have cut staff and diversified into international contracts to maintain minimum workloads.

Forecast

In sum, there is little doubt that the services sector will continue to be the largest sector of the Alberta economy, but it is not expected to expand its employment share at the rate that it has been. In fact, after 1984/85 this sector's share of employment will more than likely stabilize at about 32 per cent of total employment.⁹⁴ Its traditional employment-generating capacity will be constrained by slower population and economic growth in Alberta, and by the introduction of technological innovations intended to enhance labour productivity.

The year 1985/86 looks more and more like it will be the first year that the services industry does not record appreciable economic growth. The following years are not expected to see much additional growth in this sector owing to the general limited economic growth in the province. This sector was able to record strong employment growth through the recession as efforts were still being made to increase the provision of services such as health care and

education. The "catch-up" of services to match the increased population levels of the late 1970's and early 1980's now appears to be complete.

5. Public Administration

Early in the 1980's, the public service in Alberta grew by 14-18 per cent per year to keep pace with the demands from a rapidly expanding population and economy.⁹⁵ Most of the growth in employment took place in the provincial administration. In response to the subsequent slowdown in economic activity the public sector has moved to adjust operations to the constraints of slower revenue and population growth. Total employment in the public administration sector was cut by 1.6 per cent to 83,000 positions in Alberta in 1983/84.⁹⁶ That year, the bulk of the staff reductions came at the local and provincial levels, whereas the federal government had already streamlined its Alberta offices in the preceding fiscal year.⁹⁷ In addition, the provincial budget of March, 1984, eliminated 1,100 provincial government positions in the 1984/85 fiscal year. This year's provincial budget has also moved to cutback more provincial administration positions by attrition, especially in the Social Services Department. Although the exact total of the number of jobs being eliminated is as yet uncertain, it is estimated that the total will be about half of last year's cutback.

The overall thrust of the latest provincial and federal budgets is restraint, aimed ultimately at managing the deficits that accumulated as government's undertook countercyclical spending to sustain the economy through the recession. Continuing concerns about government deficits and the prospect of slow economic and population growth will, no doubt, preclude any major expansion in government expenditures and employment in the next few years. The next two fiscal years, 1985-86 and 1986-87, should see employment levels mirror government's fiscal restraint policies.⁹⁸

III) EMPLOYMENT PROSPECTS IN THE ALBERTA ECONOMY

Labour Market Outlook

The assumptions made in the previous two sections of this paper will result in a number of important labour market developments in Alberta. First, increased economic activity in the province (beginning in 1985/86) will tend to slow the rate of out-migration, to the point where the natural growth of the working age population will outweigh the decline resulting from net out-migration. The rate of out-migration will also tend to slow, as the stock of those most likely to migrate declines. Migrants from Alberta are, for the most part, individuals who came to the province during the boom years. The slower economic growth in Alberta, in comparison with the national average, has resulted in relatively better job opportunities outside the province. Secondly, the continuing trend of increasing participation by women in the workforce, combined with reduced out-migration and the natural growth of the working age population, will lead to a greater increase in the labour force than employment growth over the medium term.⁹⁹ In other words, the labour force will continue to grow faster than the Alberta economy can create new jobs. This will result in continued high levels of unemployment and an unemployment rate which is expected to remain at the double digit level until at least 1986/87.¹⁰⁰ Some economists have predicted that Alberta will not see the unemployment rate fall below 10 per cent in this decade.

Employment

The employment situation in Alberta has deteriorated sharply in the last four years, falling from peak annual growth of 71,250 (6.9 per cent) in 1980/81 to a year-to-year loss of 36,750 (-3.2 per cent) just two years later.¹⁰¹ Employment fell further in 1983/84, but by a lesser amount than in the preceding fiscal year. The province's youths have been the hardest-hit, losing about ten per cent of their jobs in each of the past two years.¹⁰² Adult males incurred relatively moderate (-0.9 per cent) employment losses in 1982/83, but partially recovered them in the subsequent year.¹⁰³ Adult females represent the only group whose employment has continued to expand throughout the 1980's, albeit at a

slower rate in recent years.¹⁰⁴ Two factors contributing to this employment growth have been the surge in labour force participation by married women and the tendency for women to still concentrate in the service-producing industries, which are typically less cyclically sensitive.

Unemployment and the Unemployment Rate

So far throughout the 1980's, Alberta's level and rate of unemployment have risen. In 1980/81, and 1981/82, unemployment increases occurred despite a robust economy; because employment growth, although strong (averaging 5.5 per cent per annum), was still exceeded by the large influx (averaging 7 per cent per annum) of people into the labour force.¹⁰⁵ The severe economic recession in the following two fiscal years caused a slowdown in labour force growth and employment losses which led to higher unemployment. In 1982/83, the number of jobless climbed by a record 64,000 (126.3 per cent) and the unemployment rate jumped five full percentage points to 9.3 per cent.¹⁰⁶ Youths incurred the sharpest increase in unemployment. In 1983/84, youth unemployment stood at 16.5 per cent, well above the provincial average of 11.7 per cent.¹⁰⁷ The 1984/85 fiscal year continued to show year-over-year increases in the number of unemployed as well as higher unemployment rates. The unadjusted annual rate is currently 11.1 per cent, up from 10.3 last year.¹⁰⁸

Over the medium term, unemployment levels are expected to continue to rise as the increase in the number of available jobs will not keep pace with the increasing demand for jobs. Due to stronger labour force than employment growth, the unemployment rate will remain high until at least 1986/87. It is not unlikely that throughout 1985/86 and 1986/87, the Alberta unemployment rate will be above the national average rate.¹⁰⁹ This is an uncharacteristic position for the Alberta rate to assume, and stems partially from the province's high rate of labour force participation. Owing to much lower labour force growth, the province's unemployment rate will not rise as fast as has been experience in the past.

However, the fact that the rate is high, and that it is not expected to decline in the short to medium term, is a major cause for concern. Even by the end of the decade, the unemployment rate is not expected to have subsided much, though it may break the double digit syndrome. In sum, Alberta will face the prospect of chronically and historically high unemployment in the medium term.¹¹⁰

IV) Conclusion

As the provincial economy regains momentum, as it is anticipated to do from 1985/86 till the end of the decade, new jobs will be created. However, this increase in the number of available jobs will not keep pace with the increasing demand for jobs. Employment growth will be spurred by the resource based industries (ie., oil and gas, and to a lesser extent, coal). However, employment recovery, like that for the economy at large, will be slow and will fall short of recapturing the boom growth rates even by the end of the decade. Corporations, especially those in the energy field, will be cautious and will undertake hiring on a smaller scale, so they do not get caught overstaffed again, as when the boom ended. Some additional employment growth will be realized in the service sector, particularly in the tourism industry and the community and personal services industries.

The medium term will also see an accelerating diffusion of new technology in the workplace, both plant and office. Although there is much speculation about worker displacement, the impact of technological change on employment is far from certain at this stage. Little reliable analysis has been done on the subject to date in Canada.

The scenario of gradual employment growth is conditional on a similarly moderate economic outlook. Another round of high inflation and interest rates would choke off both economic and employment growth. Similarly, a sudden and long lasting drop in the world price of oil would put an end to the recovery in the oil and gas industry. Alternatively, a resurgence in world commodity markets and prices could spur the relaunching of many major resource-related projects now on hold in Alberta. To end on

a positive note, the recent revival of a number of small scale oil sands projects, in addition to the expansions at Syncrude and Suncor and the agreement on the Lloydminster heavy oil upgrader are positive signs, and should aid in stimulating the depressed Alberta economy.

FOOTNOTES

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ACTUAL EMPLOYMENT AND
SHARES OF EMPLOYMENT BY INDUSTRY
ALBERTA

	<u>80/81</u>	<u>SHARE</u>	<u>81/82</u>	<u>SHARE</u>	<u>82/83</u>	<u>SHARE</u>	<u>83/84</u>	<u>SHARE</u>
GOODS PRODUCING								
AGRICULTURE	87	7.9	86	7.4	76	6.8	82	7.3
OTHER PRIMARY	69	6.3	75	6.5	68	6.1	69	6.2
MANUFACTURING	107	9.7	102	8.8	89	8.0	89	8.0
CONSTRUCTION	107	9.7	124	10.7	105	9.4	85	7.6
SERVICE PRODUCING								
TRANS/COMM/OU	97	8.8	95	8.2	95	8.5	97	8.7
TRADE	197	17.9	204	17.6	200	17.6	199	17.8
FIN/INS/RE	58	5.3	61	5.3	68	6.1	60	5.4
COMM/E/PS	304	27.7	328	28.3	336	30.0	353	31.6
ADMIN	72	6.6	82	7.1	84	7.5	83	7.4
TOTAL	1098	100.0	1157	100.0	1120	100.0	1116	100.0

SOURCE: Statistics Canada, The Labour Force, Catalogue 71-001.

CHANGES TO THE
COMPONENTS OF THE
WORKING AGE POPULATION

	<u>NATIONAL INCREASE¹</u>	<u>MIGRATION² GAINS/(LOSSES)</u>	<u>NET ADDITION TO WORKING AGE POPULATION GAINS/(LOSSES)</u>
1984/85	27,000	(35,000)	(8,000)
1985/86	27,000	(10,000)	17,000
1986/87	27,000	3,000	30,000

¹ The net of persons turning 15 years of age and deaths for persons 15 years of age and over. The latter component was determined using mortality rates as estimated by the Alberta Bureau of Statistics.

² This figure represents a net estimate of interprovincial migration, immigration and emigration. An estimate of those over 15 years of age who fall into this category was derived using Census Survival Ratios and Life Table Survival Ratios as estimated by the Alberta Bureau of Statistics.

**MIGRATION - INTERPROVINCIAL AND
INTERNATIONAL (ALBERTA)**

<u>QUARTERS</u>	<u>INTERPROVINCIAL¹ MIGRATION</u>			<u>NET-INTERNATIONAL² MIGRATION</u>	<u>TOTAL MIGRATION</u>
	<u>IN</u>	<u>OUT</u>	<u>NET</u>		
1982 Q1	27200	20300	6900	3900	10800
Q2	20700	16400	4300	4400	8700
Q3	24700	23300	1400	4200	5600
Q4	15900	19300	- 3400	2900	- 500
1983 Q1	19400	20600	- 1200	2300	1100
Q2	11500	15500	- 2700	2400	- 300
Q3	19700	32800	-13100	2500	-10600
Q4	18900	31400	-12500	1700	-10800
1984 Q1	12900	22200	- 9300	1200	- 8100
Q2	13100	23200	-10100	1900	- 8200
Q3	20600	35000	-14400	1700	-12700

In addition to the cyclically-induced swing in migration away from Alberta, the general aging of the population has also contributed to the slowdown in working age population growth. The adult population (age 25 and over) has continued to expand, due to the maturing of the post-war baby boom bulge. The youth group (age 15-24) has been contracting at an increasing rate since 1982/83, and the teenage sub-group (age 15-19) started shrinking even a year before that. Declining fertility rates in the 1960's and 1970's, sometimes referred to as the "baby bust", now mean that fewer young people are turning fifteen years of age, the minimum working age. Consequently, the natural source of working age population growth is depleting.

SOURCE: 1 Alberta Treasury, Bureau of Statistics.
 2 Net-International migration figures
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